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Classified by DCM Timothy D. Andrews, reasons 1.5 b and d

¶1. This periodic economic report includes:
--U.S./U.K. Team Bids on Management Contract for Nigerian PTT
--Nigeria Buys U.S.-Made Buses
--World Bank to Work Closer with States
--Environmental Success Story: Getting the Red Out in the Delta

U.S./U.K. Team Bids on Management Contract for NITEL

¶2. New Jersey-based Africa Consortium is one of four finalists for the three-year management contract for Nigerian Telecommunications Limited (NITEL). The Consortium's bid features Lucent, as well as the consulting branch of British Telecom (BT), as principal vendors for the project. Chris Vaios, Africa Consortium's Managing Director, told Econoff that the three-year management contract could result in sales of as much as \$2 billion for the two companies. Lucent and BT representatives, however, were careful to stress that their companies have no equity stake in the consortium

¶3. Vaios contends that his group is the most technically competent of the bidders. He is confident that it will win the competition unless political factors influence the contract award.

¶4. (C) Comment: Africa Consortium has its work cut out. As is the wont of most businessmen, Vaios may have exaggerated the group's technical edge over its competitors, some of whom are also backed by European PTTs. More important, Africa Consortium has no agent in Nigeria. The group's visit was handled by a recently appointed State of New Jersey commerce official who was unable to arrange a meeting with the Vice President, even though Atiku was in town and normally would have met this caliber of delegation. Business names are important in Nigeria, and reticence to bill Lucent and BT as part of the consortium may also hurt. Nevertheless, the Bureau of Public Enterprise has a good track record on transparency and the group should remain in the running. However, as Vaios seems to understand, it would not be unheard of for politics to intrude at some point. End Comment.

Nigeria Buys U.S.-Made Buses

¶5. Sofitel Capital Corporation USA, Inc., a capital investment company in Maryland, and Innochris Nigeria, Ltd., one of the largest transportation companies in Nigeria, signed a \$12.9 million loan agreement to purchase 35 U.S.-made buses. U.S. EX-IM Bank is expected to guarantee the loan and Motor Coach Industries (MCI), the largest luxury bus manufacturer in America, will supply the buses. This will mark the very first time U.S.-manufactured buses will share the roadways with the Mercedes Benz and Volvo buses that have dominated this sector of the Nigerian transportation sector. Sofitel is currently negotiating two similar deals with other Nigerian transportation companies for the purchase of 60 U.S.-made buses for a total value near \$25 million, as well as a loan for a company to provide airline services in Nigeria.

World Bank to Work Closer with States

¶6. (C) World Bank Representative Mark Tomlinson recently told Econoffs that the Bank is providing technical assistance to the GON to improve Nigeria's capacity to absorb the nearly \$757 million in bank loans approved for the country. Tomlinson explained that only \$25 million of the approved loan portfolio has been spent so far because of the lack of

institutional capacity at all levels of government to implement projects under the Bank's strict fiduciary and performance standards. Absent this institutional weakness, he estimated that \$75 million would have been spent by now.

¶ 17. (C) Comment: Tomlinson points the finger at the GON for the slow implementation of bank loans. We believe that Tomlinson was not so much concerned with the GON's ability to spend as its ability to account for what is spent. GON officials see their relationship with the bank differently. They complain bitterly that the bank has not worked diligently to honor its commitments to Nigeria. Instead, the bank has engaged in an incessant game of "moving the goal posts" that continually has placed new requirements on Nigeria to tap into bank funds. True, Tomlinson may not always be at his diplomatic best when dealing with the relationship between the bank and the GON. However, given legitimate concerns about malfeasance and corruption, the GON should not have been totally surprised that the bank presented stringent conditions for the release of funds. End Comment.

¶ 18. (C) Tomlinson has complained that the GON is unreceptive to the Bank's attempts to build institutional capacity at the federal level. The Nigerians have been insisting instead that the Bank engage in more hands-off project financing. Because of this difference in philosophy with the federal government, Tomlinson has begun to focus more of the Bank's efforts at the state level, where institutional responsibility for many aspects of poverty alleviation rests. Tomlinson also told Econoffs that before Bank spending can pick up again, Nigeria must improve its macroeconomic fundamentals, adding that a fresh agreement with the IMF would be a curative step.

¶ 19. (C) Comment: The Bank has also been frustrated by GON slowness in moving the Poverty Reduction Strategy Paper (PRSP) process forward. The GON likewise was further disappointed by the Bank's decision to lower the level of its lending program in Nigeria. A low point probably came in September when Minister of Agriculture Bello publicly criticized the Bank in front of Tomlinson and the press for rejecting a \$200 million loan for agriculture.

¶ 10. (C) It is highly unlikely the Bank will find working with the States any easier. Conventional democratic theory assumes that state and local government will be more responsive to local needs. However, what is in the textbooks differs from actual practice in many if not most Nigerian states. The spendthrift behavior of many states makes the federal government look fiscally responsible. Few if any states have developed the minimal due diligence and fiduciary standards found at the federal level. End Comment.

Environmental Success Story: Getting the Red Out in the Delta

¶ 11. (SBU) Ken Clary, Managing Director of the Washington State-based Environmental Distribution Network (EDN), cites his organization as a model for others who wish to get environmental contracts from the Niger Delta Development Corporation (NDDC). EDN has signed a \$1.7 million contract for a water treatment program for eight villages and anticipates additional projects.

¶ 12. (SBU) Clary claimed he was able to avoid many of the political pitfalls that have befallen others who wanted to work with the NDDC and its widely discredited predecessor OMPADEC (Oil Mineral Producing Areas Development Commission). Working with a Nigerian associate, Clary insisted the NDDC fund all of his expenses up front. Clary says a major selling point of his water treatment system was its ability to remove iron from the ground water. "People got excited when they saw that they could wash white clothes without the red tinge and that sprinklers stopped staining the bottoms of white walls."

¶ 13. (SBU) Clary sees oil service companies as even better potential clients than the NDDC. "Many of the companies operating in the Delta are in an environmental time warp. They don't know about recent advances in the technologies which are not only cleaner but more cost effective as well." He says that despite tens of millions of dollars spent on environmental projects in the Delta, very little visible progress has been made.

¶ 14. (SBU) Clary believes there has been a change of attitude about the environment in the Delta, and there is now a grass roots demand for real progress. People are demanding NDDC and others restore water quality; Delta inhabitants are not just settling for leveraging more money out of the government and oil companies. Clary believes his company and other smaller U.S. firms have almost unlimited opportunities if they hold

their ground and get the Nigerians to play the game on U.S. standard business practice terms. Comment: Post applauds Clary's enthusiasm for doing business in Nigeria, but our experience here suggests that he may face more ruts and bumps in the road ahead than he anticipates. End Comment.

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